

Steve Hamlen  
President

# United Utilities, Inc.

Affiliate of Unicom



August 26, 1997

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Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, N.W.  
Washington, D.C. 20554

Re: Reply Comments to Comments Filed in Response to United Utilities, Inc.  
Petition for Reconsideration - CC: Docket No. 96-45

Dear Mr. Caton:

Enclosed are an original and twelve copies of **Reply Comments of United Utilities, Inc. To Comments Filed in Response to United Utilities' Petition for Reconsideration** (Commission's Report and Order (62 Fed. Reg. 32862, June 17, 1997)). An extra copy has been provided for ITS.

Sincerely yours,

cc: U.S. Senator Ted Stevens  
State of Alaska - Mr. John Katz  
Alaska Public Utilities Commission  
Alaska Telephone Association  
National Telephone Cooperative Association  
United States Telephone Association  
GVNW, Inc.  
Arter & Hadden (Attn: James U. Troup)

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of )

Federal-State Joint )  
Board on Universal )  
Service )

CC Docket No. 96-45

**Reply Comments of United Utilities, Inc. to Comments  
Filed in Response to United Utilities' Petition for Reconsideration**

United Utilities, Inc. (United) Petition for Reconsideration requested that the implementation of the Commissions Report and Order (62 Fed. Reg. 32862, June 17, 1997 (the Order) be postponed until the Commission has completed the reform of its Part 36 Jurisdictional Separations procedures; until there is predictability that specific and sufficient Federal and State mechanisms will be able to preserve and advance universal service; and until the Commission has addressed the concerns raised by the Alaska Public Utilities Commission (APUC), National Telephone Cooperative Association (NTCA) and others petitioning for reconsideration.<sup>1</sup> The approximately fifty-six (56) petitions for reconsideration and reply comments raise substantial issues concerning the feasibility and lawfulness of the Commission's Order. Herein United will limit its reply comments to the comments filed by General Communications, Inc. (GCI) and MCI Telecommunications Corp. in response to United's petition.

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<sup>1</sup> United Utilities, Inc. Petition for Reconsideration, page 1.

United's petition <sup>2</sup> clearly explained that the "double counting" of local minutes in determining federal universal service support and the cost allocation factor (DEM) used to establish interstate access charges resulted in implicit subsidized support to long distance carriers and the overstatement of universal service funding requirements. United employed the consulting firm of GVNW to evaluate the double counting. GVNW's conclusion was:

"We are of the opinion that due to the elimination of implicit subsidies as required by the Act, that the double counting (emphasis added) of local minutes for digital switches could be construed a subsidy to interexchange carriers because the process understates interstate interexchange allocations (emphasis added)."<sup>3</sup>

GCI's reply comments assert that the "double counting" of local minutes is not an issue in this proceeding.<sup>4</sup> GCI then refers to a 1987 Commission Order where the Commission stated that:

"We also believe that relative use is a reasonable allocator of these (meaning switching) costs".<sup>5</sup>

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<sup>2</sup> United Utilities, Inc. Petition for Reconsideration, pages 2 and 3.

<sup>3</sup> Exhibit 1, page 2, United's Petition

<sup>4</sup> GCI's Reply Comments, page 10.

<sup>5</sup> GCI's Reply Comments, page 11.

While the 1987 Commission Order did not eliminate the “double counting” it did acknowledge that relative use is a reasonable allocator.<sup>6</sup> This is precisely what United is seeking here. Also, at that time the Commission was not under the mandate of the Telecommunications Act of 1996 to make universal service funding explicit (Section 254(e)). The principles of “relative use” and “requiring costs to be recovered in rates paid by the cost causer” do not provide for a minute of use to be double counted so that interexchange carriers can receive subsidized/implicit support for interstate access. A minute of use is a minute of use.

MCI states that the Order is a necessary component in fulfilling the goal of the Act, as it aims to make implicit subsidies explicit.<sup>7</sup> MCI goes on to state that “the primary difference is that support will come from the universal service fund -- not access charges” and that “no economic reason, therefore, exists for the Commission to delay the implementation of the universal service order . . .”.

Both GCI and MCI want to receive interexchange access services at subsidized rates. They also want to be able to receive inflated universal service funding support for each eligible local customer they capture. GCI’s and MCI’s reply comments merely substantiates that the “double counting” of local minutes subsidizes interstate access and overstates universal service funding requirements. This is not the result that either Congress or the Commission intended.


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<sup>6</sup> Amendment of Part 67, 2 FCC Rcd 2551, 2559 (1987).

<sup>7</sup> MCI’s Reply Comments, page 12.

The Commission needs to eliminate the "double counting" to prevent local exchange carriers from having to offer subsidized support to interexchange carriers. The Commission also needs to eliminate the "double counting" to prevent funding for the federal universal service fund from being inflated. If the "double counting" is not eliminated it will help pave the path for deep pocket players like GCI, MCI, and AT&T to drive small rural companies out of business.

Respectfully submitted,

  
Steve Hamlen, President